

**NORTHPORT PUBLIC SCHOOL**

**NORTHPORT, MICHIGAN**

**JUNE 30, 2007**

***Baird, Cotter and Bishop, P.C.***

**CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601

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NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN

ANNUAL FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2007

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# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
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July 26, 2007

### **INDEPENDENT AUDITORS' REPORT**

Board of Education  
Northport Public School  
Northport, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Northport Public School as of and for the year ended June 30, 2007, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Northport Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Northport Public School as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principals generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated July 26, 2007, on our consideration of Northport Public School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages iii through x and 22, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Northport Public School, Northport, Michigan basic financial statements. The combining individual fund financial statements are not a required part of the basic financial statements. The combining individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

**Northport Public Schools  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007**

Our discussion and analysis of Northport Public School District (the "School District") financial performance provides an overview of the school district's financial activities for the fiscal year ended June 30, 2007. Please read this analysis in conjunction with the school district's financial statements, which immediately follow this section.

Northport School District is one of the few remaining one building schools in Michigan. The School District is located in the tip of Leelanau County. Northport Public School serves students in grades Kindergarten through 12<sup>th</sup> grade. The population for the 2006-2007 school year was 153 pupils. Students attending the School District are afforded more individualized attention due to small class sizes. Educators in the School District are committed to the philosophy that all children are capable of learning if they have the appropriately specified learning tasks and a suitable amount of time commensurate with their individual learning rates. Northport Public School District offers a core academic curriculum that meets and or exceeds state guidelines at all levels.

**A. Fund Financial Statements**

The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

The fund statements are formatted to comply with the legal requirements of the Michigan Department of Education's "Accounting Manual." In the State of Michigan, school districts' major instructional and instructional support activities are reported in the General Fund. Additional activities are reported in various other funds. These include Special Revenue Funds, Debt Service Funds, and Capital Projects Funds.

In the fund financial statements, capital assets purchased are reported as expenditures in the year of acquisition with no asset being reported. The issuance of debt is recorded as a financial resource. The current year's payments of principal and interest on long-term obligations are recorded as expenditures. The obligations for future years' debt service are not recorded in the fund financial statements.

**B. Government-Wide Financial Statements**

The government-wide financial statements are calculated using full accrual accounting and more closely resemble those presented by business and industry. The entire School District's assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation, as well as the bonded debt of the School District.

**Northport Public Schools  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007**

**C. Summary of Net Assets**

The following schedule summarizes the net assets at fiscal years ended June 30, 2007 and 2006:

	2006-2007 Fiscal Year	2005-2006 Fiscal Year
<b>Assets</b>		
Current Assets	\$ 2,982,680	\$ 2,444,837
Non Current Assets		
Capital Assets-Net	<u>7,014,461</u>	<u>6,968,977</u>
Total Assets	<u>\$ 9,997,141</u>	<u>\$ 9,413,814</u>
<b>Liabilities</b>		
Current Liabilities	\$ 795,915	\$ 550,776
Non Current Liabilities	<u>4,493,042</u>	<u>4,795,219</u>
Total Liabilities	<u>5,288,957</u>	<u>5,345,995</u>
<b>Net Assets</b>		
Invested in Capital Assets Net of Related Debt	2,269,461	1,943,977
Restricted for Debt Service	479,911	427,550
Restricted for Capital Projects	957,442	874,269
Unrestricted	<u>1,001,370</u>	<u>822,023</u>
Total Net Assets	<u>4,708,184</u>	<u>4,067,819</u>
Total Liabilities and Net Assets	<u>\$ 9,997,141</u>	<u>\$ 9,413,814</u>

**D. Analysis of Financial Position**

During the fiscal year ended June 30, 2007, the School District's net assets increased by \$640,365. A few of the more significant factors affecting net assets during the year are discussed below:

**1. Depreciation Expense**

GASB 34 requires school districts to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended June 30, 2007, \$227,497 was recorded for depreciation expense.

**Northport Public Schools  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007**

**2. Capital Outlay Acquisitions**

For the fiscal year ended June 30, 2007, \$272,981 of expenditures were capitalized and recorded as assets of the School District. These additions to the School District's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$45,484 for the fiscal year ended June 30, 2007.

**E. Results of Operations**

For the fiscal years ended June 30, 2007 and 2006, the results of operations, on a School District-wide basis, were:

	2007		2006	
	Amount	% of Total	Amount	% of Total
<b>General Revenues</b>				
Property Taxes	\$ 3,342,652	79.8%	\$ 3,084,487	81.0%
State Sources	40,127	1.0%	4,233	0.1%
Investment and Other	219,813	5.2%	151,778	4.0%
Total General Revenues	3,602,592	86.0%	3,240,498	85.1%
<b>Program Revenues</b>				
Charges for Services	41,973	1.0%	39,759	1.0%
Operating Grants	544,620	13.0%	530,738	13.9%
Total Program Revenues	586,593	14.0%	570,497	14.9%
Total Revenues	4,189,185	100.0%	3,810,995	100.0%
<b>Expenses</b>				
Instruction	1,450,020	40.9%	1,260,924	40.4%
Supporting Services	1,504,094	42.4%	1,227,715	39.4%
Food Service	97,436	2.7%	110,807	3.6%
Athletic Activities	65,410	1.8%	61,796	2.0%
Other Transactions	6,692	0.2%	26,390	0.8%
Interest on Long-Term Debt	197,671	5.6%	207,609	6.7%
Unallocated Depreciation	227,497	6.4%	219,829	7.1%
Total Expenses	3,548,820	100.0%	3,115,070	100.0%
Change in Net Assets	\$ 640,365		\$ 695,925	

**Northport Public Schools  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007**

**F. Analysis of Significant Revenues and Expenses**

Significant revenues and expenditures are discussed in the segments below:

**1. Property Taxes**

The School District levies 13.39 mills of property taxes for operations on non-homestead properties, less the mandatory reductions required by the Headlee Amendment, Article IX, Section 31. According to Michigan law, the taxable levy is based on the taxable valuation of properties. The annual taxable valuation increases are capped at the rate of the prior year's Consumer's Price Index increase or 5%, whichever is less. At the time property is sold, its taxable valuation is readjusted to the State Equalized Value, which in theory is half of the property's market value.

For the 2006-2007 fiscal year, the School District levied \$2,602,184 in non-homestead property taxes for general operations. This represented an increase of 8.30% from the prior year. The amount of unpaid property taxes at June 30, 2007, was \$3,814.

**2. State Sources**

The State of Michigan funds districts based on a blended student enrollment. For the year ended June 30, 2007, the foundation allowance was based on a blended average of pupil membership counts taken in February and September of 2006, 2005 and 2004. For the 2006-2007 fiscal year, the School District received a base foundation allowance of \$9,184 per student FTE. However, no actual state aid was received because the non-homestead property taxes are greater than the gross foundation allowance.

**3. Student Enrollment**

The following schedule summarizes the blended general education student enrollment for the past three fiscal years:

Fiscal Year	Blended Student FTE	FTE Change from Prior Year
2006-2007	166	(25)
2005-2006	191	28
2004-2005	163	(16)

**4. Operating Grants**

The School District funds a significant portion of its operations with categorical sources. For the fiscal year ended June 30, 2007, federal, state, and other grants accounted for \$544,620. This represents an increase over the total grant sources of \$530,738 received for the 2005-2006 fiscal year.



**Northport Public Schools  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007**

**5. Sinking Fund**

For the fiscal year ended June 30, 2007, the School District received \$287,816 from a sinking fund tax levy of .8989 mills. The School District utilized these funds as part of an ongoing capital repair program to the School District's building. This sinking fund millage has been approved through the 2006 tax roll year.

**6. Comparative Expenditures**

A comparison of the expenditures reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances is shown below:

Expenditures	2006-2007 Fiscal Year	2005-2006 Fiscal Year	Increase (Decrease)
Instruction	\$ 1,449,110	\$ 1,263,448	\$ 185,662
Supporting Services	1,517,330	1,227,715	289,615
Food Service	97,436	110,807	(13,371)
Athletic Activities	65,410	61,796	3,614
Debt Service	476,120	462,237	13,883
Other Transactions	6,692	18,791	(12,099)
Capital Outlay	259,745	81,920	177,825
Transfers Out	163,082	158,492	4,590
Total Expenditures	\$ 4,034,925	\$ 3,385,206	\$ 649,719

A comparison of expenditures by fund is as follows:

Expenditures	2006-2007 Fiscal Year	2005-2006 Fiscal Year	Increase (Decrease)
General Fund	\$ 3,142,907	\$ 2,662,856	\$ 480,051
Food Service Fund	97,436	110,807	(13,371)
Athletic Activities Fund	65,410	61,796	3,614
Debt Service Fund-1999	476,795	459,295	17,500
Debt Service Fund-Durant	0	3,617	(3,617)
Capital Projects-QZAB	150,748	22,483	128,265
Capital Projects-Sinking Fund	101,629	64,352	37,277
Total Expenditures	\$ 4,034,925	\$ 3,385,206	\$ 649,719

**Northport Public Schools  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007**

**G. General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the local Board of Education approve the original budget for the upcoming fiscal year prior to its starting on July 1. Any amendments made to the operating budget must be approved by the Board prior to the close of the fiscal year on June 30.

For the 2006-2007 fiscal year, the School District amended the general fund budget one time with the Board adopting the changes in May 2007. The following schedule shows a comparison of the original general fund budget, the final amended general fund budget, and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET OVER (UNDER)
Total Revenues	\$ 3,043,896	\$ 3,181,968	\$ 3,307,633	\$ 125,665
<b>EXPENDITURES</b>				
Instruction	\$ 1,478,197	\$ 1,449,453	\$ 1,449,110	\$ (343)
Supporting Services	1,437,202	1,604,015	1,589,050	(14,965)
Other Transactions	19,000	19,000	6,017	(12,983)
Transfers Out	109,500	109,500	98,730	(10,770)
Total Expenditures	\$ 3,043,899	\$ 3,181,968	\$ 3,142,907	\$ (39,061)

The original revenue budget of \$3.044 million was increased to \$3.182 million primarily as a result of anticipated increases in interest earnings and grant income.

The original expenditure budget of \$3.044 million was increased to \$3.182 million primarily as a result of anticipated increases in operational costs.

The total revenues variance of \$125,665 is 3.95% of total budgeted revenues and the total expenditures variance of \$39,061 is approximately .12% of the total General Fund expenditures for the year.

**Northport Public Schools  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007**

**H. Capital Asset and Debt Administration**

**1. Capital Assets**

By the end of the 2006-2007 fiscal year, the School District had invested over \$7.014 million in a broad range of capital assets, including a school building and facilities, school buses and other vehicles, and various types of equipment. This represents a net increase of \$45,484 over the prior fiscal year. Depreciation expense for the year amounted to \$227,497, bringing the accumulation to \$2.169 million as of June 30, 2007.

**2. Long-Term Debt**

At June 30, 2007, the School District had \$4,775,412 in bonded debt outstanding. This represents a reduction of \$280,000 over the amount outstanding at the close of the prior fiscal year as no new debt was issued in the 2006-2007 fiscal year.

**I. Factors Bearing on the District's Future**

At the time that these financial statements were prepared and audited, the School District was aware of the following items that could significantly affect its financial health in the future:

- With the current economic condition in the country, and especially in the State of Michigan, uncertainty surrounds the level at which districts will be funded for the student foundation allowance for the 2007-2008 and 2008-2009 fiscal years. However, currently the actual non homestead property tax levy is greater than the gross foundation allowance, and thus the School District anticipates that no actual foundation allowance revenue will be received from the state.
- As with other employers, the School District continues to face a rapid increase in rates paid for employee benefits, particularly for health insurance. On the positive side, the State has decreased the retirement rate for 2007-2008 to 16.72% from 17.74%; however, increases are projected in future years. The number of retirees projected to occur over the next few years may also result in higher annual increases.
- The contracts with the Northport Education Association and the Northport Education Support Personnel Association, the unions that represent the teaching staff and support staff, expire in August 2009 and June 2009, respectively.
- The State of Michigan continues to increase its focus on student achievement. Results of standardized test scores (Michigan Educational Assessment Program) are compared from year to year, with the results being tabulated by school building and by district. With the changes to the federal Title I legislation resulting from the No Child Left Behind Act, adequate yearly progress of students becomes very important. This increase in assessments of all students will need to be funded by the district.

**Northport Public Schools  
Management's Discussion and Analysis  
For Fiscal Year Ended June 30, 2007**

**J. Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report, or need additional financial information, please contact Karen Hammersley, Business Manager at Northport Public School District, 104 Wing Street, P.O. Box 188, Northport, Michigan 49670, Fax (231) 386-9838, Telephone (231) 386-5153.

NORTHPORT PUBLIC SCHOOL

NORTHPORT, MICHIGAN

STATEMENT OF NET ASSETS

JUNE 30, 2007

ASSETS

Current assets

Cash and cash equivalents	\$ 2,707,845
Accounts receivable	1,362
Due from other governmental units	51,934
Inventory	1,113
Prepaid Expenses	20,426
Investments	200,000
	<hr/>
Total current assets	2,982,680

Non current assets

Capital assets, net of accumulated depreciation	7,014,461
	<hr/>
Total assets	\$ 9,997,141
	<hr/>

LIABILITIES AND NET ASSETS

LIABILITIES

Current liabilities

Accounts payable	\$ 201,714
Accrued interest payable	34,327
Accrued expenses	76,135
Salaries payable	127,278
Deferred revenue	41,461
Current portion of non current liabilities	315,000
	<hr/>
Total current liabilities	795,915
	<hr/>

Non current liabilities

Bonds payable	4,775,412
Compensated absences	32,630
Less current portion of non current liabilities	(315,000)
	<hr/>
Total non current liabilities	4,493,042
	<hr/>
Total liabilities	5,288,957
	<hr/>

NET ASSETS

Invested in capital assets, net of related debt	2,269,461
Restricted	
Debt service	479,911
Capital projects	957,442
Unrestricted	1,001,370
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Total net assets	4,708,184
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Total liabilities and net assets	\$ 9,997,141
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The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL

NORTHPORT, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues		Governmental Activities
		Charges for Services	Operating Grants and Contributions	Net (Expense)
				Revenue and Changes in Net Assets
<u>Governmental activities</u>				
Instruction	\$ 1,450,020	\$ 1,050	\$ 506,396	\$ (942,574)
Supporting services	1,504,094	0	0	(1,504,094)
Food service	97,436	29,646	38,224	(29,566)
Athletic activities	65,410	11,277	0	(54,133)
Other transactions	6,692	0	0	(6,692)
Interest on long-term debt	197,671	0	0	(197,671)
Depreciation-unallocated	227,497	0	0	(227,497)
Total governmental activities	<u>\$ 3,548,820</u>	<u>\$ 41,973</u>	<u>\$ 544,620</u>	<u>(2,962,227)</u>
General revenues				
Property taxes				
Levied for general purposes				2,613,102
Levied for debt service				441,734
Levied for capital projects				287,816
State sources				40,127
Investment and other				219,813
Total general revenues				<u>3,602,592</u>
Change in net assets				640,365
Net assets - beginning of year				<u>4,067,819</u>
Net assets - ending of year				<u>\$ 4,708,184</u>

The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	General Fund	1999 Debt Service Fund	Capital Projects Sinking Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash and cash equivalents	\$ 1,421,607	\$ 45,304	\$ 957,442	\$ 283,492	\$ 2,707,845
Accounts receivable	0	1,362	0	0	1,362
Due from other governmental units	51,092	0	0	842	51,934
Inventory	0	0	0	1,113	1,113
Prepaid expenses	20,426	0	0	0	20,426
Investments	0	200,000	0	0	200,000
Total assets	<u>\$ 1,493,125</u>	<u>\$ 246,666</u>	<u>\$ 957,442</u>	<u>\$ 285,447</u>	<u>\$ 2,982,680</u>

LIABILITIES AND FUND BALANCES

LIABILITIES

Accounts payable	\$ 201,714	\$ 0	\$ 0	\$ 0	\$ 201,714
Accrued expenses	76,135	0	0	0	76,135
Salaries payable	127,278	0	0	0	127,278
Deferred revenue	41,461	0	0	0	41,461
Total liabilities	<u>446,588</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>446,588</u>

FUND BALANCES

Reserved for inventory	0	0	0	1,113	1,113
Reserved for prepaid expenses	20,426	0	0	0	20,426
Reserved for debt service	0	246,666	0	267,572	514,238
Reserved for capital projects	0	0	957,442	0	957,442
Unreserved, undesignated reported in:					
General fund	1,026,111	0	0	0	1,026,111
Special revenue funds	0	0	0	16,762	16,762
Total fund balances	<u>1,046,537</u>	<u>246,666</u>	<u>957,442</u>	<u>285,447</u>	<u>2,536,092</u>
Total liabilities and fund balances	<u>\$ 1,493,125</u>	<u>\$ 246,666</u>	<u>\$ 957,442</u>	<u>\$ 285,447</u>	

**Reconciliation of Governmental Fund Balances to District-Wide Government Activities Net Assets**

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$9,183,218 and the accumulated depreciation is \$2,168,757.

7,014,461

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

Bonds payable	\$ 4,775,412	
Accrued interest on bonds	34,327	
Compensated absences	32,630	(4,842,369)

Total net assets - governmental activities \$ 4,708,184

The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL

NORTHPORT, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	General Fund	1999 Debt Service Fund	Capital Projects Sinking Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
<u>Revenues</u>					
Property taxes	\$ 2,613,102	\$ 441,734	\$ 287,816	\$ 0	\$ 3,342,652
Investment earnings	104,579	20,223	47,024	5,108	176,934
State sources	266,142	0	0	7,286	273,428
Federal sources	202,182	0	0	30,938	233,120
Other transactions	121,628	0	0	41,423	163,051
Total revenues	3,307,633	461,957	334,840	84,755	4,189,185
<u>Expenditures</u>					
Instruction	1,449,110	0	0	0	1,449,110
Supporting services	1,517,330	0		0	1,517,330
Food service	0	0	0	97,436	97,436
Athletic activities	0	0	0	65,410	65,410
Debt service					
Principal	0	280,000	0	0	280,000
Interest	0	196,120	0	0	196,120
Capital outlay	71,720		37,277	150,748	259,745
Other transactions	6,017	675	0	0	6,692
Total expenditures	3,044,177	476,795	37,277	313,594	3,871,843
Excess (deficiency) of revenues over (under) expenditures	263,456	(14,838)	297,563	(228,839)	317,342
<u>Other financing sources (uses)</u>					
Transfers in	0	0	0	163,082	163,082
Transfers out	(98,730)	0	(64,352)	0	(163,082)
Total other financing sources (uses)	(98,730)	0	(64,352)	163,082	0
Net change in fund balances	164,726	(14,838)	233,211	(65,757)	317,342
Fund balances, beginning of year	881,811	261,504	724,231	351,204	2,218,750
Fund balances, end of year	\$ 1,046,537	\$ 246,666	\$ 957,442	\$ 285,447	\$ 2,536,092

The notes to the financial statements are an integral part of this statement.



NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

Total net change in fund balances - governmental funds	\$ 317,342
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlay to purchase or build capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities. This is the amount by which capital outlays exceeds depreciation in the period.

Capital outlay	\$ 272,981	
Depreciation expense	<u>(227,497)</u>	45,484

In the statement of activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). This year, sick time used was less than the the amounts earned by \$910. (910)

Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities. 280,000

Accrued interest on bonds is recorded in the statement of activities when incurred; it is not recorded in governmental funds until it is paid:

Accrued interest payable - June 30, 2006	32,776	
Accrued interest payable - June 30, 2007	<u>(34,327)</u>	<u>(1,551)</u>

Change in net assets of governmental activities	<u>\$ 640,365</u>
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The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN

STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2007

	<u>Agency Fund</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 45,776</u>
<u>LIABILITIES</u>	
Due to student groups	<u>\$ 45,776</u>

The notes to the financial statements are an integral part of this statement.

NORTHPORT PUBLIC SCHOOL  
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NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Northport Public School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the District's accounting policies are described below.

**A. Reporting Entity**

The School District is a Michigan public school district located in Leelanau County which consists of one K-12 building and primarily serves the Northport Community. As of June 30, 2007, the District employed 17 professional staff and 17 non-professional staff and had 153 students enrolled within the District. The District receives funding from local, state, and federal government sources and must comply with all of the requirements of these funding source entities. The District is not included in any other governmental reporting entity as defined by the generally accepted accounting principles. Board members are elected by the public and have decision-making authority, the power to designate management, the ability to significantly influence operations, and the primary accountability for fiscal matters. In addition, the District's reporting entity does not contain any component units as defined in Governmental Accounting Standards Board Statement No. 14. In addition, under the criteria of the GASB pronouncement, student, parent and teacher organizations are not included, except to the extent that the District holds assets in the capacity of an agent.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. The government-wide financial statements categorize primary activities as either governmental or business type. All of the District's activities are classified as governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges paid by recipients who purchase, use or directly benefit from goods or services by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. State Foundation Aid, certain revenue from the intermediate school district and other unrestricted items are not included as program revenues but instead as *general revenues*.

In the government-wide statement of net assets, the governmental activities column is presented on a consolidated basis, and is reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The District's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

The District first utilizes restricted resources to finance qualifying activities.

The government-wide statement of activities reports both the gross and net cost of each of the District's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The statement of activities reduces gross expenses by related program revenues and operating grants. Program revenues must be directly associated with the function. Operating grants include operating-specific and discretionary (either operating or capital) grants.

The net costs (by function) are normally covered by general revenue (property taxes, state sources, intermediate district sources, interest income and other revenues.)

The District does not allocate indirect costs.

This government-wide focus is more on the sustainability of the District as an entity and the change in the District's net assets resulting from the current year's activities.

Major individual governmental funds are reported as separate columns in the fund financial statements and all other funds are combined and reported as non major funds. Major funds are generally those that represent 10% or more of governmental fund assets, liabilities, revenues or expenditures.

**Governmental Funds** – Governmental funds are those funds through which most school district functions typically are financed. The acquisition, use and balances of the school district's expendable financial resources and the related current liabilities are accounted for through governmental funds.

The District reports the following major governmental funds:

The *GENERAL FUND* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The 1999 *DEBT SERVICE FUND* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *CAPITAL PROJECTS SINKING FUND* records capital project activities funded with Sinking Fund millage as well as funding for the Qualified Zone Academy Bond (QZAB) obligations.

**Other Non-Major Funds**

The *SPECIAL REVENUE FUNDS* account for revenue sources that are legally restricted to expenditures for specific purposes (not including expendable trusts or major capital projects). The District accounts for its food service and athletic activities in the special revenue funds.

The *QZAB CAPITAL PROJECTS SINKING FUND* records capital project activities funded with the proceeds from a Qualified Zone Academy Bond.

The *DURANT DEBT SERVICE FUND* and the *QZAB DEBT SERVICE FUND* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN  
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**Fiduciary Funds**

Fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Trust funds account for assets held by the District under the terms of a formal trust agreement. Fiduciary funds are not included in the government-wide statements.

The *AGENCY FUND* is custodial in nature and does not present results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the District holds for others in an agency capacity (primarily student activities).

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Material property taxes, state and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**State Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per pupil based on a statewide formula. The Foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2007, the foundation allowance was based on a blended average of pupil membership counts taken in February and September of 2006, 2005 and 2004. For fiscal year ended June 30, 2007, the per pupil foundation allowance was \$9,184.

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN  
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The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30th is reported as accounts receivable. However, because the actual local non homestead property tax levy of 13.39 mills is greater than the gross foundation allowance, the District received no actual foundation allowance revenue from the State for the year ended June 30, 2007.

The District also receives revenue from the state to administer certain categorical education programs. State rules require that revenue earmarked for these programs be used for its specific purpose. Certain governmental funds require an accounting to the state of the expenditures incurred. For categorical funds meeting this requirement, funds received, which are not expended by the close of the fiscal year are recorded as deferred revenue. Other categorical funding is recognized when the appropriation is received.

**D. Other Accounting Policies**

1. Cash and Investments

Cash includes amounts in demand deposits.

Investments are carried at market value.

The District complies with State statutes regarding investment of funds.

The Board policy on investment of funds authorizes the School District to invest as follows:

- (a) Bonds, bills, or notes of the United States, or obligations, the principal and interest of which are fully guaranteed by the United States Government or obligations of the State.
- (b) Certificates of deposit issued by any state or national bank organized and authorized to operate in this state.
- (c) Commercial paper rated prime 1 or prime 2 at the time of purchase and maturing not more than 270 days after the date of purchase.
- (d) Michigan Investment Liquid Asset Fund Plus (MILAF).

The School's deposits and investments are held separately by several of the School District's funds.

2. Short-Term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet. Short-term interfund loans are classified as "interfund receivables/payables".

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

3. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. Property taxes are assessed as of January 1 and billed and due July 1. Unpaid taxes become delinquent as of September 14th and are subject to penalties and interest after that date. Uncollected taxes at year-end are not material and are not accrued.

For the year ended June 30, 2007, the District levied the following amounts per \$1,000 of taxable valuation:

	Taxable Value	Mills	Tax Levy
General fund - non-homestead	194,339,797	13.3900	2,602,184
Capital projects sinking fund			
Homestead and non-homestead	319,375,031	0.8989	287,068
1999 debt service fund			
Homestead and non-homestead	319,375,031	1.3800	440,719

4. Inventories and Prepaid Expenditures

Inventories are valued at cost. In the General Fund, the School District considers all supplies to be consumed when acquired and any inventories on hand at year-end are considered to be immaterial. The food service inventory consists of food products held for consumption. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures

5. Capital Assets

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated capital assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets.

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as follows:

Buildings and improvements	25 - 50 years
Buses and vehicles	7 - 10 years
Furniture and other equipment	5 - 15 years

The District's capitalization policy is to capitalize individual amounts exceeding \$5,000.

NORTHPORT PUBLIC SCHOOL  
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NOTES TO FINANCIAL STATEMENTS  
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6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. The amount allowable to be compensated for depends on the position and the longevity of the individual employee. The benefit vests after one year of employment. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee retirements.

At June 30, 2007, the noncurrent liability to the employees for accumulated sick leave and related fringe benefits is estimated at \$32,630. It is reasonably possible that the estimated liability could change significantly due to non-vested teachers leaving the district or a higher or lower than normal use of employee sick leave. The portion of this liability expected to be paid to employees retiring in 2007-2008 was reported as a current liability in the General Fund at June 30, 2007.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. The District has opted to apply the provisions of GASB 34 paragraph 146 which allows the amortization of premiums, discounts and material bond issuance costs to be applied prospectively for all bonds issued after July 1, 2002.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Use of Estimates

The process of preparing basic financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.



NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the general, special revenue and debt service funds.

The District maintains a formalized encumbrance system. Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation is utilized in the governmental funds. Encumbrances outstanding at year end do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The superintendent and the business manager submit to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth and presented as required supplementary information.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amount appropriated. Violations if any are noted in the required supplementary information section.
4. The superintendent and the business manager are charged with general supervision of the budgets and shall hold the budgets and shall hold the department heads responsible for performance of their responsibilities.
5. During the year the budgets are monitored and amendments to the budget resolution are made when it is deemed necessary.
6. Budgeted amounts are as originally adopted on June 8, 2006, or as amended by the School Board of Education various times throughout the year.

NORTHPORT PUBLIC SCHOOL  
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NOTES TO FINANCIAL STATEMENTS  
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**B. Excess of Expenditures Over Appropriations**

The District had no fund with Excess of expenditures over appropriations during the year.

**NOTE 3 – DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments – Credit Risk**

The District's deposits and investments are all on deposit with banks located in the State of Michigan and Michigan School District Liquid Asset Fund Plus.

*Investment rate risk.* The District will minimize Interest Rate Risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market; and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investing pools and limiting the average maturity in accordance with the District's cash requirement.

*Foreign currency risk.* The District is not authorized to invest in investments, which have this type of risk.

*Credit risk.* The District will minimize Custodial Credit Risk, which is the risk of loss due to the failure of the security issuer or backer, by; limiting investments to the types of securities listed in the District's investment policy; and pre-qualifying the financial institutions, brokers/dealer, intermediaries and advisors with which the District will do business in accordance with the District's investment policy.

*Concentration of credit risk.* The District will minimize Concentration of Credit Risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of June 30, 2007, \$303,401 of the government's bank balance of \$586,839 was exposed to custodial credit risk because it was uninsured and uncollateralized.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. Category 1 includes investments that are insured or registered, or securities held by the District or the District's agent in the District's name.

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Category 2 includes investments that are uninsured and unregistered with securities held by the counterparty's trust department or its agent in the District's name. Category 3 includes investments that are uninsured and unregistered, with the securities held by the counterparty, or by its trust department or its agent but not in the District's name. At year end all of the District's investments were uncategorized as to risk.

At year-end, the only investments were in certificates of deposit.

Investments not subject to categorization:

Investment trust funds \$ 2,368,880

The District invests certain excess funds in the Michigan Investment Liquid Asset Fund (MILAF). MILAF is an external pooled investment fund of "qualified" investments for Michigan school districts. MILAF is not regulated nor is it registered with the SEC. MILAF reports that as of June 30, 2007, the fair value of the District's investments is the same as the value of the pool shares.

Balance sheet classifications:

	Deposits	Investments	Fiduciary Assets	Total
Cash	\$ 2,707,845	\$ 0	\$ 45,776	\$ 2,753,621
Investments	0	200,000	0	200,000
	<u>\$ 2,707,845</u>	<u>\$ 200,000</u>	<u>\$ 45,776</u>	<u>\$ 2,953,621</u>

## B. Receivables

Receivables as of year end for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate; including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor and Other Funds	Total
Receivables			
Accounts	\$ 0	\$ 1,362	\$ 1,362
Due from other governmental units	51,092	842	51,934
Total receivables	<u>\$ 51,092</u>	<u>\$ 2,204</u>	<u>\$ 53,296</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN  
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Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Grant received, but not yet utilized	\$ 0	\$ 41,461

**C. Capital Assets**

A summary of changes in the District's capital assets follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Assets not being depreciated				
Construction in progress	\$ 14,884	\$ 0	\$ 14,884	\$ 0
Other capital assets:				
Buildings and improvements	8,339,682	202,660	0	8,542,342
Furniture and equipment	104,653	13,485	0	118,138
Buses and vehicles	451,018	71,720	0	522,738
Subtotal	8,895,353	287,865	0	9,183,218
Less accumulated depreciation				
Buildings and improvements	1,697,176	181,251	0	1,878,427
Furniture and equipment	37,786	8,322	0	46,108
Buses and vehicles	206,298	37,924	0	244,222
	1,941,260	227,497	0	2,168,757
Net other capital assets	6,954,093	60,368	0	7,014,461
Net capital assets	\$ 6,968,977	\$ 60,368	\$ 14,884	\$ 7,014,461

Depreciation for the fiscal year ended June 30, 2007 amounted to \$227,497. The District determined that it was impractical to allocate depreciation to the various governmental activities as the assets serve multiple functions.

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN  
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**D. Long-Term Debt**

The District issues general obligation bonds to provide funds for the acquisition, construction and improvement of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

The following is a summary of governmental long-term obligations for the District for the year ended June 30, 2007:

	Compensated Absences	Bonds	Total
Balance July 1, 2006	\$ 31,720	5,055,412	5,087,132
Additions	910	0	910
Deletions	0	(280,000)	(280,000)
Balance June 30, 2007	32,630	4,775,412	4,808,042
Less current portion	0	(315,000)	(315,000)
Total due after one year	\$ 32,630	\$ 4,460,412	\$ 4,493,042

Bonds payable at June 30, 2007 is comprised of the following issues:

1999 School Building and Site Bonds; due in annual installments of \$315,000 to \$575,000 through May 1, 2015, interest at 5.00% to 5.10% \$ 3,620,000

2003 School Improvement (QZAB) Bonds; due June 1, 2018; interest rate of zero. 1,125,000

1998 School Improvement Bond (Durant); due in installments of \$3,617 to \$24,301 through May 15, 2013; effective interest rate of 4.761353%. This debt will be repaid using revenues provided by the State of Michigan specifically for this purpose. If the Michigan Legislature fails to appropriate funds, the School District is not liable for repayment if these bonds. 30,412

Total bonded debt \$ 4,775,412

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN  
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The annual requirements to amortize debt outstanding as of June 30, 2007, including interest payments of \$911,021 are as follows:

Year ending June 30,	Principal	Interest	Amounts Payable
2008	\$ 315,000	\$ 182,120	\$ 497,120
2009	355,000	169,987	524,987
2010	395,700	151,537	547,237
2011	437,719	129,768	567,487
2012	503,483	107,938	611,421
2013-2017	1,643,510	169,671	1,813,181
2018	1,125,000	0	1,125,000
	4,775,412	911,021	5,686,433
Compensated absences	32,630	0	32,630
	<u>\$ 4,808,042</u>	<u>\$ 911,021</u>	<u>\$ 5,719,063</u>

The annual requirements to amortize the accrued compensated absences is uncertain because it is unknown when the employees will use the leave time.

Interest expense for the year ended June 30, 2007 was \$196,120.

**E. Short-Term Debt**

The District incurred no short-term debt activity for the year.

**F. Interfund Receivables, Payables, and Transfers**

There were no interfund receivables and payables at June 30, 2007.

Interfund transfers are as shown in the individual fund financial statements at June 30, 2007, were:

	Transfers In	Transfers Out
General fund	\$ 0	\$ 98,730
School service fund - food service fund	42,949	0
School service fund - athletic activities fund	55,781	0
Capital projects - sinking fund	0	64,352
Debt service fund - QZAB	64,352	0
	<u>\$ 163,082</u>	<u>\$ 163,082</u>

Transfers are used to move unrestricted general fund revenues to finance various programs that the School must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies.

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**G. Durant Settlement**

As a result of the Durant v State of Michigan settlement regarding state under funding of school revenues, the District will be receiving \$5,050 per year over a ten-year period beginning November 15, 1998. This represents 50% of the expected funds. For the remaining 50% of the funds from this settlement, the District has opted to participate in a bonding program enabling it to receive a lump-sum payment on November 15, 1998. The debt will be repaid over a 15-year period beginning May 15, 1999 using revenues provided by the State specifically for this purpose. Settlement proceeds were restricted for use on schools buses, electronic instructional material and software, school security, textbooks, technology, infrastructure or infrastructure improvement, training for technology, or to reduce or eliminate voter-approved debt issued prior to November 19, 1997.

**H. 2003 School Improvement Bonds**

The 2003 School Improvement Bonds are “qualified zone academy bonds” (QZAB) under Section 1397E(d)(6) of the Internal Revenue Code, allowing holders of the bonds certain income tax credits. The QZAB bonds are due June 1, 2018 but require annual deposits of \$64,352 into a sinking fund beginning June 1, 2004. The sinking fund deposits plus the interest earned thereon, which is fixed at 2.15%, will be sufficient to pay off the bonds upon maturity. This fund has accumulated \$267,572 as of June 30, 2007. The required annual deposits are to be funded by the Capital projects sinking fund.

**I. Sinking Fund Tax Levy**

On June 10, 2002, the taxpayers approved a sinking fund tax levy. The School is authorized to levy 1.00 mills for five years ending with the 2006 tax roll. The actual levy for the 2006 tax roll was .8989 mills due to Headlee rollback provisions. The sinking fund will be used for the repairs of school buildings and to fund the 2003 School Improvement Bonds. The transactions for the sinking fund are accounted for in a capital projects fund. For this fund, the School District has complied with the applicable provisions of §1212(1) of the Revised School Code and the applicable section of the Revised Bulletin for School District Audits of Bonded Construction Funds and of Sinking Funds in Michigan.

**J. Single Audit Report**

Current federal guidelines require entities with federal expenditures exceeding \$500,000 to have a “single audit” of federally funded programs. At June 30, 2007, the School District’s expenditures for federally funded programs was less than \$500,000 and therefore, the District is not required to have a “Single Audit for the fiscal year ended June 30, 2007.

NORTHPORT PUBLIC SCHOOL  
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**K. Lease Information**

The rental expense for the year ended June 30, 2007 was \$19,410.

The rental expense consists of lease agreements on various equipment and real estate. The future minimum lease payments for these leases are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
2008	\$ 15,832
2009	15,832
2010	15,832
2011	8,728
2012	8,728
	<u>\$ 64,952</u>

**NOTE 4 – OTHER INFORMATION**

**A. Employee Retirement System**

Plan Description - The District contributes to the statewide Michigan Public School Employees' Retirement System (MPERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPERS. The MPERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for MPERS. That report may be obtained by writing to Office of Retirement Services, P.O. Box 30171, Lansing, Michigan 48909 or by calling (517) 322-5103.

Funding Policy - Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

Basic Plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1st on all MIP monies on deposit for 12 months. If a member leaves MPERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.



NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2007

The District is required to contribute the full actuarial funding contribution amount to fund pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007, were 16.34% from July 1 2006 to September 30, 2006 and 17.74% from October 1 2006 to June 30, 2007. The contribution requirements of plan members and the District are established and may be amended by the MPSERS Board of Trustees. The District contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were \$256,034, \$228,819 and \$228,442, respectively, and were equal to the required contribution for those years.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan.

Other Post-employment Benefits

Under the MPSERS Act, all retirees have the option of continuing health, dental and vision coverage.

**C. Risk Management**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The District participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The District pays annual premiums under a retrospectively rated policy to the pools for the respective insurance coverage. In the event a pool's total claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The workers' compensation pool and the property casualty pool maintain reinsurance for claims generally in excess of \$500,000 for each occurrence with the overall maximum coverage varying depending on the specific type coverage of reinsurance.

The District continues to carry commercial insurance for other risks of loss, including employee health and accident insurance. No settlements have occurred in excess of coverage for June 30, 2007 or any of the prior three years.

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN

REQUIRED SUPPLEMENTARY INFORMATION

BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND

YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local sources	\$ 2,654,870	\$ 2,698,653	\$ 2,755,423	\$ 56,770
State sources	143,880	200,520	266,142	65,622
Federal sources	195,588	202,182	202,182	0
Other transactions	49,558	80,613	83,886	3,273
Total revenues	3,043,896	3,181,968	3,307,633	125,665
<u>Expenditures</u>				
Instruction	1,478,197	1,449,453	1,449,110	343
Supporting services	1,437,202	1,604,015	1,589,050	14,965
Other transactions	19,000	19,000	6,017	12,983
Total expenditures	2,934,399	3,072,468	3,044,177	28,291
Excess (deficiency) of revenues over (under) expenditures	109,497	109,500	263,456	153,956
<u>Other financing sources (uses)</u>				
Transfers out	(109,500)	(109,500)	(98,730)	10,770
Net change in fund balance	(3)	0	164,726	164,726
Fund balance, beginning of year	381,038	881,811	881,811	0
Fund balance, end of year	\$ 381,035	\$ 881,811	\$ 1,046,537	\$ 164,726

NORTHPORT PUBLIC SCHOOL  
NORTHPORT, MICHIGAN

NONMAJOR GOVERNMENTAL FUND TYPES  
COMBINING BALANCE SHEET  
JUNE 30, 2007

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	<u>Debt Service Funds</u>		<u>Total Nonmajor Governmental</u>
	<u>Food Service</u>	<u>Athletic</u>	<u>QZAB</u>	<u>Durant</u>	<u>QZAB</u>	<u>Funds</u>
<u>ASSETS</u>						
Cash and cash equivalents	\$ 13,182	\$ 2,738	\$ 0	\$ 0	\$ 267,572	\$ 283,492
Due from other governmental units	842	0	0	0	0	842
Inventory	1,113	0	0	0	0	1,113
	<hr/>					
Total assets	\$ 15,137	\$ 2,738	\$ 0	\$ 0	\$ 267,572	\$ 285,447
<hr/>						
<u>LIABILITIES AND FUND BALANCES</u>						
<u>LIABILITIES</u>						
Total liabilities	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
<hr/>						
<u>FUND BALANCES</u>						
Reserved for inventory	1,113	0	0	0	0	1,113
Reserved for debt service	0	0	0	0	267,572	267,572
Unreserved						
Undesignated	14,024	2,738	0	0	0	16,762
	<hr/>					
Total fund balances	15,137	2,738	0	0	267,572	285,447
	<hr/>					
Total liabilities and fund balances	\$ 15,137	\$ 2,738	\$ 0	\$ 0	\$ 267,572	\$ 285,447
	<hr/>					

NORTHPORT PUBLIC SCHOOL

NORTHPORT, MICHIGAN

NONMAJOR GOVERNMENTAL FUND TYPES

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2007

	<u>Special Revenue Funds</u>		<u>Capital Projects Fund</u>	<u>Debt Service Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Food Service</u>	<u>Athletic</u>	<u>QZAB</u>	<u>Durant</u>	<u>QZAB</u>	
<u>Revenues</u>						
Investment earnings	\$ 0	\$ 0	\$ 710	\$ 0	\$ 4,398	\$ 5,108
State sources	7,286	0	0	0	0	7,286
Federal sources	30,938	0	0	0	0	30,938
Other	29,646	11,777	0	0	0	41,423
Total revenues	67,870	11,777	710	0	4,398	84,755
<u>Expenditures</u>						
Food service	97,436	0	0	0	0	97,436
Athletic activities	0	65,410	0	0	0	65,410
Capital outlay	0	0	150,748	0	0	150,748
Total expenditures	97,436	65,410	150,748	0	0	313,594
Excess (deficiency) of revenues over (under) expenditures	(29,566)	(53,633)	(150,038)	0	4,398	(228,839)
<u>Other financing sources (uses)</u>						
Transfers in	42,949	55,781	0	0	64,352	163,082
Net change in fund balances	13,383	2,148	(150,038)	0	68,750	(65,757)
Fund balances, beginning of year	1,754	590	150,038	0	198,822	351,204
Fund balances, end of year	\$ 15,137	\$ 2,738	\$ 0	\$ 0	\$ 267,572	\$ 285,447

# *Baird, Cotter and Bishop, P.C.*

## **CERTIFIED PUBLIC ACCOUNTANTS**

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
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July 26, 2007

### **REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Education  
Northport Public School  
Northport, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Northport Public School, Northport, Michigan, as of and for the year ended June 30, 2007, and have issued our report thereon dated July 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Northport Public School, Northport, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northport Public School, Northport, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Northport Public School, Northport, Michigan's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

The relatively small number of people involved in the accounting functions of the District make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties and have taken measures of management oversight to help compensate for this limitation.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Northport Public School, Northport, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Education, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

# *Baird, Cotter and Bishop, P.C.*

## CERTIFIED PUBLIC ACCOUNTANTS

134 WEST HARRIS STREET CADILLAC, MICHIGAN 49601  
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July 26, 2007

Board of Education  
Northport Public School  
Northport, Michigan

Dear Members of the Board and Administrators:

We have completed our audit of the financial statements of the Northport Public School as of and for the fiscal year ended June 30, 2007, and we would like to take this opportunity to comment on the following items relative to the management and accounting procedures of the School District:

### Budgeting

The District currently does an excellent job formulating and monitoring the annual budget function. There were no excess of expenditures over appropriations at year end. The actual revenues were approximately 4% greater than anticipated. However, much of this variance was attributable to a retirement credit that the State returned to the District in late June 2007.

The expenditures variance was approximately 1% of appropriations for the year.

We commend the District for their diligent budget monitoring efforts.

With much uncertainty surrounding funding to local schools, the budget process becomes very important to the ability to make timely and often difficult financial decisions for a District. As such, fiscal accountability as well as adequate reserves will allow Districts the opportunity to weather the current economic challenges facing many local Districts within the State.

### Posting Budget to District Website

The State School Aid Act now requires local districts to post their annual operating budget and subsequent amendments on their website. We were able to find that the District has complied with this requirement by posting the 2006-2007 original budget on the Districts website as required. We wish to remind you that this is an ongoing requirement and this act requires the posting to occur within 30 days of all newly adopted or amended budgets. The District should also consider making the budget easy to locate from the home page of the District website so that interested parties will be able to access it.

Condition of Accounting Records

The accounting records presented for our examination were found to be in excellent condition. We commend and appreciate the efforts of the business manager for a job well done.

We sincerely thank the Board for awarding this firm the audit assignment of the District, and the administration and staff for their cooperative spirit and assistance in helping us fulfill this audit engagement. The friendly, cooperative and enthusiastic response to our requests for data, facts and figures is very much appreciated and enhances the efficiency of the audit process. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*